

COMPREHENSIVE  
ANNUAL  
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2003

**CITY OF MOUNTAIN VIEW, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**PREPARED BY THE**

**DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES**

**Robert F. Locke, Finance and Administrative Services Director**  
**Patty J. Kong, Assistant Finance and Administrative Services Director**  
**Steve A. Loukopoulos, Accounting Officer**

**CITY OF MOUNTAIN VIEW, CALIFORNIA**  
**Comprehensive Annual Financial Report**

**For the Year Ended June 30, 2003**

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September 4, 2003

Honorable Mayor, City Council and Citizens of Mountain View:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Mountain View, California (City) for the fiscal year ended June 30, 2003, with the Independent Auditors' Report, submitted in compliance with City Charter Section 1106. The City has prepared the CAFR using the financial reporting requirements prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

This report consists of management's representations concerning the finances of the City and its component units, the Mountain View Revitalization Authority (Authority), Mountain View Shoreline Regional Park Community (Community) and the City of Mountain View Capital Improvements Financing Authority (Financing Authority) as of June 30, 2003. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficiently reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Maze & Associates, a firm of independent licensed certified public accountants selected by and reporting to the City Council. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by

management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there is a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2003 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, Federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. These reports are available in the City's separately issued Single Audit report.

## **PROFILE OF THE GOVERNMENT**

Mountain View concluded the City's celebration of 100 years of incorporation on November 7, 2002 with the dedication of Centennial Plaza. The plaza includes a new train station building designed in the style of Mountain View's 1888 Southern Pacific train station. A large, bronze bell commemorating the City's Centennial is mounted on the station.

With a population of 72,000, the City is located in the heart of Silicon Valley, occupies approximately 12 square miles and is approximately 36 miles southeast of the City of San Francisco and 15 miles northwest of the City of San Jose (the County seat).

The City is a charter city incorporated on November 7, 1902. The City Charter was originally approved by voters in 1952 and the City operates under a Council-Manager form of government. The seven Councilmembers are elected at large for four-year terms that are staggered so three or four seats are filled at the general municipal election in November of every even-numbered year. Service on the Council is limited to two consecutive terms. Each year in January, the Council elects one of its members as Mayor and another as Vice Mayor.

The City provides the following full range of municipal services which are reflected in this report:

- General government (City management, legal, human resources and financial activities);
- Public safety (Police, fire and paramedic services);
- Public works (Engineering, design and utility maintenance);
- Community development (Community land use development); and



- Culture and recreation (Library, parks, recreation, performing arts and golf course).

The report also includes financial information regarding City-provided water, wastewater and solid waste utility enterprise activities.

The financial reporting entity includes all funds and account groups of the primary government (i.e., the City) as well as all of its component units. Component units are legally separate government entities for which the primary government is financially accountable.

Financially accountable as defined by the GASB means the City Council exercises control through appointment of the governing boards and approval of the budget. However, this does not mean the City assumes the obligations or liabilities of these entities. The Community, Authority and Financing Authority are component units of the City. Separate financial statements for the Community and Authority are included in the City's CAFR. (There is no legal requirement for a separate component unit report for the Financing Authority.) Therefore, these agencies are included in the reporting entity. No other agencies or activities associated with the City or utilizing a name similar to the City's meet the established criteria for inclusion in the reporting entity and, accordingly, are excluded from this report.

The budget process begins in November of each year, when all City departments begin preparation of their budget proposals for the upcoming fiscal year.

Departments submit budget requests to the Budget Review Team (consisting of the Assistant City Manager and the Finance and Administrative Services Director) in late December. The Budget Review Team reviews these requests and submits recommendations to the City Manager.

The City Manager assesses the Budget Review Team's recommendations, meets with department heads for further discussion and submits recommendations to the City Council in the form of the Narrative Budget Report in May. The City Council is then able to review and discuss the recommendations prior to the presentation of the Proposed Budget.

In early June, the Proposed Budget is presented to the City Council and considered at public hearings. The City Charter requires that the annual budget be adopted prior to the beginning of each fiscal year (July 1).

The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual budget adopted by the City Council. Budgets are approved at the fund and department level (legal level of control) and may not be exceeded without City Council approval. Transfers and adjustments between funds, departments and capital projects must be submitted to the City Council for approval. The City Charter requires approval by five votes of the seven-member City Council in order to amend the budget. Department heads are responsible for managing expenditures within their budget and assuring funds are only expended for properly authorized City expenses. Department heads are also



responsible for expending funds consistent with the goals and objectives approved by the City Council.

Activities of the General Fund, certain Special Revenue Funds and certain Capital Project Funds are included in the annually adopted budget. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control that reserves annual amounts that have been committed for varying reasons (e.g., contracts, purchase orders). Outstanding encumbrances at year end are reappropriated as part of the following year's budget pursuant to the City Charter.

Debt Service Funds are budgeted by adoption of the indenture provisions for the life of the debt and/or are budgeted each year in the fund obligated for payment of the annual debt service.

Each year, the City adopts a Five-Year Capital Improvement Program but funds only the first year of the program. General capital improvements are budgeted on a project rather than annual basis and appropriations continue until project completion. Budgetary control for these general capital improvements is exercised at the project level.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

### **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the financial statements is perhaps best understood when it is considered from a broader perspective of the environment within which the City operates.

#### Local Economy

Mountain View is centrally located in the heart of the Silicon Valley between San Jose and San Francisco with a population of 72,000 residents and a daytime population that expands to over 100,000 people. In the past eight years, Mountain View has seen significant growth in terms of residential and commercial development that has contributed to a diverse and balanced community. Since 1995, the City has seen more than 1,800 residential units created and over 4.6 million square feet of commercial/office space developed.

Over the years, many leading companies, including Google, Intuit, Synopsys, Veritas, VeriSign, SGI and Actel Corporation, have located their headquarters in Mountain View. A number of companies, including Microsoft, Nokia and AOL/Netscape, also recognized the value of the right location in Silicon Valley and have built substantial corporate campuses in Mountain View.

Biotechnology is a growing economic sector in Mountain View. Currently, Mountain View is home to Alza/Johnson & Johnson Corporation and 36 other biotech companies. The City is attractive to these growing biotech businesses because of Mountain View's close proximity to

research universities that include Stanford, U.C. San Francisco, U.C. Berkeley and San Jose State; the presence of a scientific/engineering-oriented labor base; and the ability to cluster with the various biotech firms. Mountain View is committed to developing and strengthening its diverse business community.

### Long-Term Financial Planning

The City has been fortunate in regard to significant growth of General Operating Fund revenues in the past several years, which has allowed for selected service enhancements in high-priority areas. However, the overall National, State and local economies remained weak during Fiscal Year 2002-03 and General Operating Fund revenues continued to reflect this. Revenues for governmental fund types cumulatively declined 6.2 percent over the prior year.

The adopted Fiscal Year 2003-04 budget contains no service enhancements but certain expenditure reductions necessary to maintain the City's future financial well-being. The City has adopted a balanced budget for Fiscal Year 2003-04.

In addition, the City has several initiatives under way intended to have a positive effect on the City's economic health and its services provided to residents and businesses. A few of the major initiatives are outlined below.

**Downtown Development**—Nine significant building projects neared completion in the downtown area this fiscal year. These developments will add nearly 220 new residential units and almost 300,000 square feet of office and retail space to the center of Mountain View. Each of the new developments is within walking distance of Mountain View's new Downtown Transit Center, contributing to the vitality of the downtown area.

The City Council also authorized the construction of a downtown parking structure at the corner of California and Bryant Streets. The four-story, five-level structure will accommodate 468 cars and have 20,000 square feet of retail space. The structure is expected to be completed in early 2006.

**Google Expands in Mountain View**—Google, the internationally known Internet search engine company, is expanding the size of its business operations in Mountain View. The company will be subleasing space from SGI and consolidating its operations in a campus on City-owned land located on Charleston Road between Permanente Creek and the award-winning Charleston Park.

**Application for New Medical Facility**—An application has been submitted to the City to allow for the development of a medical facility on the land once occupied by the Emporium department store at El Camino Real and Highway 85. The Camino Medical Group division of the Palo Alto Medical Group is applying to construct the project. The Palo Alto Medical Foundation is proposing a large medical office and treatment facility of 250,000 square feet to 275,000 square feet.

Improvements to Highway 101 Interchanges—Work on a \$142.0 million project by the Valley Transportation Authority (VTA) and Caltrans to make improvements to Highway 101 between Moffett Boulevard and Old Middlefield Way is proceeding on schedule. The project affects four major interchanges in Mountain View and is expected to be completed at the end of 2005.

Computer History Museum—Mountain View is the new permanent location for the Computer History Museum (Museum), the home of approximately 5,000 computer artifacts. The Museum was initially created in Boston but began moving its collection to the Silicon Valley in the 1990s. Recently, the Museum purchased a 119,000 square foot building in Mountain View as its permanent facility.

The Museum, which opened in June, was looking for a Silicon Valley location because of the role this area has played in the development of computers. Mountain View has played an important role in computing history and the creation of the Silicon Valley. Mountain View was the birthplace of the first silicon device research and manufacturing company, the company that patented the first integrated circuit and, over the years, many of the most important high-tech pioneering companies had a presence in Mountain View.

New Senior Center—This year, the City Council decided to move ahead on plans for a new Senior Center. The master plan for the new Senior Center facility calls for a 25,000 square foot building and provides expansion opportunities and space for a senior day health-care facility adjacent to the Senior Center. The City has entered into an agreement with Avenidas, a nonprofit organization providing senior services, to build the senior day health-care facility. The agreement calls for Avenidas to construct its own building and operate and maintain the facility under a 40-year lease.

Management believes the City is taking the necessary combination of expenditure controls and revenue enhancements to maintain the quality of services to the community in a financially responsible manner. Standard & Poors has reconfirmed the City's underlying AAA credit rating, further demonstrating confidence in the City's financial management.

#### Cash Management Policies and Practices

Cash temporarily idle during the year may be invested in a variety of securities, including obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper, medium-term notes, municipal bonds of the City or its component units and the State of California Local Agency Investment Fund (LAIF). The maturities of the investments generally range from 30 days to 5 years, with the exception of commercial paper, which typically matures between one and seven days. The average maturity of the portfolio was 1.94 years as of June 30, 2003. Cash flow necessary for day-to-day operations is invested in LAIF or short-term commercial paper. The average portfolio yield for the fiscal year was 4.7 percent with a modified duration of 1.82 as of June 30, 2003.



The City's Investment Policy requires the portfolio be managed and performance evaluated by comparison to a published benchmark index of securities with characteristics similar to those permitted in the City's Investment Policy. The investment objective is to match the duration and total return of the benchmark index. For Fiscal Year 2002-03, the City's portfolio had a total return of 5.99 percent and average duration of 1.82 compared to the benchmark total return of 6.09 percent and average duration of 1.82. The portfolio met the performance criteria for the year and was in full compliance with all Investment Policy and legal requirements.

The provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," requires the City to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value in the financial statements.

#### Risk Management

The City is exposed to various risks of loss related to torts, errors and omissions; injuries to employees or others; unemployment and health care of employees. The City has established various self-insurance programs to account for and finance its uninsured risks of loss. The activities of the self-insurance programs are recorded in the Internal Service Funds. Under the self-insurance programs, the City retains the risk of loss up to a maximum of \$500,000 for general liability claims, \$500,000 for Workers' Compensation claims, both supplemented with excess insurance, and the actual costs incurred for unemployment benefits.

The City has accrued amounts for all known general liability and Workers' Compensation claims considered to be probable loss contingencies as of June 30, 2003. In addition, estimated amounts for adverse loss development and claims incurred but not reported have been accrued.

Additional information on the City's risk management activities can be found in Note 10 of the notes to the financial statements.

#### Pension and Other Postemployment Benefits

The City is a member of the California Public Employees Retirement System (PERS). PERS sets the contribution rates for each represented and nonrepresented group in the City. For Fiscal Year 2002-03, the employer contribution rates were:

<u>Group</u>	<u>Rate (%)</u>
Police and Fire (Public Safety)	17.247
All Others	0.000



Honorable Mayor, City Council and  
Citizens of Mountain View  
September 4, 2003  
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There is no unfunded actuarial accrued liability calculated as of June 30, 2001, the most recent information available, and the City has made all required contributions for Fiscal Year 2002-03.

The City also provides certain health care benefits for eligible retired employees under third-party insurance plans. As of the end of the June 30, 2003 fiscal year, there were 211 participants receiving benefits which are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. However, the actuarial liability calculated is \$21.0 million and the City has accumulated \$10.5 million for this liability in an internal service fund.

Additional information on the City's employee retirement plan and postemployment benefits can be found in Notes 8 and 9, respectively, in the notes to the financial statements.

### **AWARDS AND ACKNOWLEDGMENTS**

For the 13th consecutive year, the Government Finance Officers Association (GFOA) awarded a certificate of achievement for excellence in financial reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002.

For the 19th year, the City received a certificate of award for outstanding financial reporting from the California Society of Municipal Finance Officers (CSMFO) for the fiscal year ended June 30, 2002.

Both awards are valid for a one-year period only. We believe that our current Comprehensive Annual Financial Report continues to meet both programs' requirements and will be submitted to the GFOA and the CSMFO to determine its eligibility for certificates.

The preparation of the Comprehensive Annual Financial Report was made possible by the dedication of the entire Finance and Administrative Services Department staff, in particular Patty Kong, Assistant Finance and Administrative Services Director; Steve Loukopoulos, Accounting Officer; and May Jen and Beryl Delavan, Accountants. Every individual deserves recognition and thanks for their commitment to the City and their profession. We would also like to thank the City Manager and members of the City Council for their support in managing the financial operations of the City in a responsible manner.

Sincerely,



Robert F. Locke  
Finance and Administrative Services Director

RFL/PJK/6/FIN/546-09-09-03L^

## **City of Mountain View, California**

### **Directory of City Officials**

#### City Council

R. Michael Kasperzak, Jr., Mayor

Matt Pear, Vice Mayor  
Nick Galiotto  
Matt Neely

Gregory Perry  
Rosemary Stasek  
Mary Lou Zoglin

#### City Staff

Kevin C. Duggan, City Manager  
Nadine P. Levin, Assistant City Manager  
Michael D. Martello, City Attorney  
Angelita M. Salvador, City Clerk  
Robert F. Locke, Finance and Administrative Services Director  
Kathy Farrar, Employee Services Director  
Elaine Costello, Community Development Director  
Cathy R. Lazarus, Public Works Director  
David A. Muela, Community Services Director  
Karen Burnett, Library Services Director  
Marc Revere, Fire Chief  
Scott S.G. Vermeer, Police Chief

# CITY GOVERNMENT ORGANIZATION

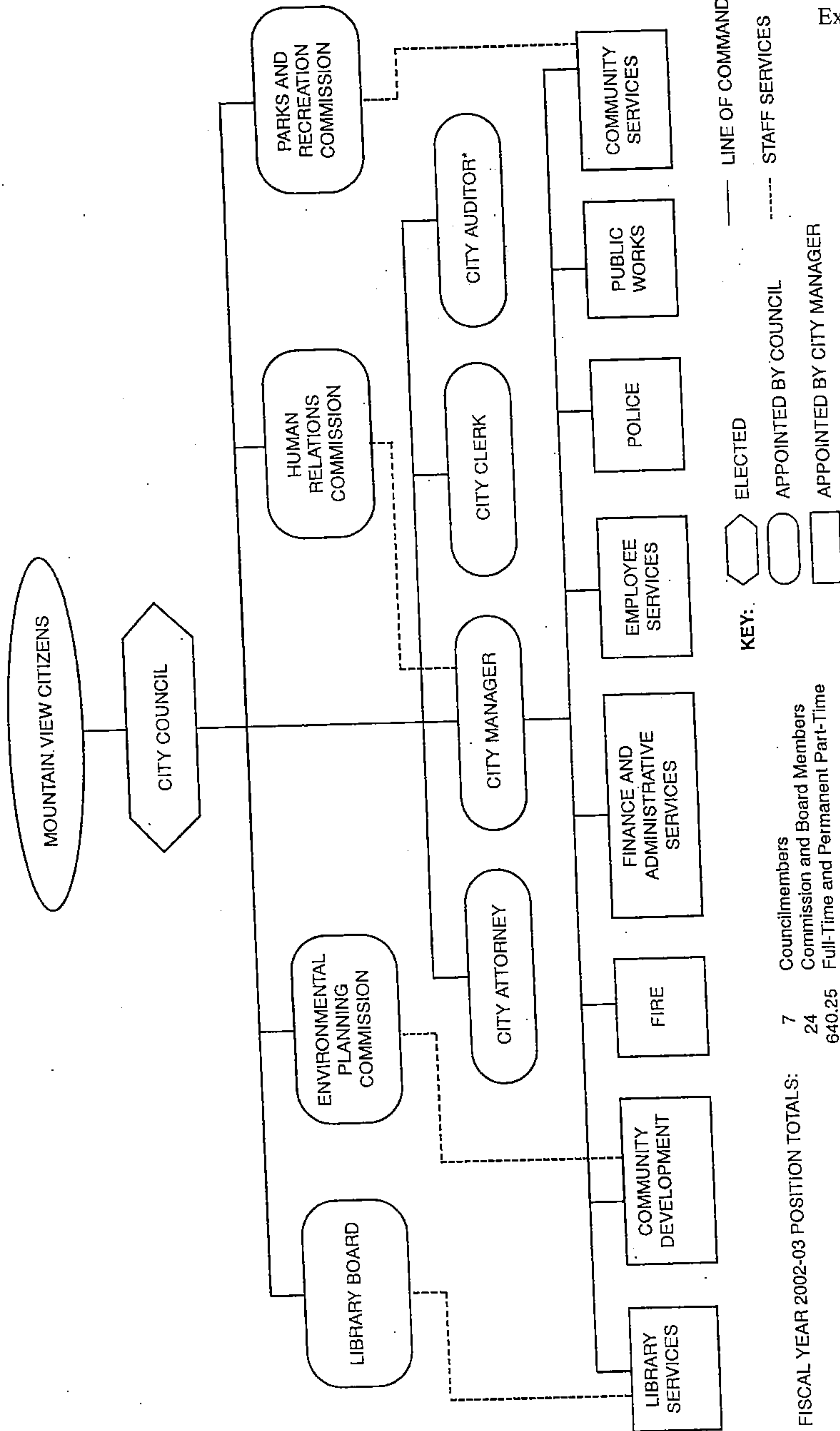


Exhibit 3

\*Finance and Administrative Services Director serves as City Auditor

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Mountain View,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emen".

Executive Director



# California Society of Municipal Finance Officers

## Certificate of Award

*Outstanding Financial Reporting 2001-2002*

Presented to the

*City of Mountain View*



*This certificate is issued in recognition of meeting professional standards and criteria in reporting  
which reflect a high level of quality in the annual financial statements  
and in the underlying accounting system from which the reports were prepared.*

*February 24, 2003*

*Robert M. Plummer*

Chair, Professional & Technical Standards Committee

*Dedicated to Excellence in Municipal Financial Management*